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CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code and have determined that you do not qualify for tax exemption under this section. Our reason for this conclusion and the facts upon which it is based are explained below.

The information submitted indicates that your organization was formed through mutual association of the members on [REDACTED] in the city of [REDACTED]. The primary purpose under your articles of association is stated, "To Further Common Purpose". The articles further provide that you:

1. Meet periodically as an association to discuss mutual problems, and to meet with the management of [REDACTED] to discuss resolution of these problems.
2. To convey to [REDACTED] the direction the distributors would like [REDACTED] to take in product design, advertising programs, merchandising aids, identification signs, marketing sales and servicing of [REDACTED].
3. To recommend policy and procedural changes that will benefit both the distributors and [REDACTED].
4. To exchange successful sales and promotion ideas.
5. To develop a successful partnership between [REDACTED] and the distributors.

The organization's membership consists of distributors of products marketed by [REDACTED]. The organizations sources of receipts are membership dues and factory donations. Its income is disbursed for travel expenses of the delegates, legal fees, bank charges and [REDACTED].

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Section 501(c)(6) of the Internal Revenue Code provides exemption to business leagues, chambers of commerce, real estate boards or boards of trade, not organized for profit and no part of the net earnings of which inure to the benefit of any private individual.

Section 501(c)(6)-1 of the Income Tax Regulations defines a business league as "an association of persons having a common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit". The activities of such an organization should be directed toward the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Revenue Ruling 68-182, C.B. 1968-1, p. 263, involves an organization whose members were engaged in the bottling and sale of a single franchised soft-drink product. Its purposes and activities were directed to more efficient production and sale of that product. While the U.S. Court of Appeals decided the organization to be exempt under section 501(c)(6), the Internal Revenue Service has refused to follow this decision. It is the Service's position that organizations promoting a single brand or product within a line of business does not qualify for exemption under section 501(c)(6).

This position was upheld by the Supreme Court in *National Muffler Dealers Association v. U.S.* 440 U.S. 472 (1979). In this case the court held that an organization of muffler dealers franchised by Midas International Corporation did not qualify for exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code because the organization's purpose was too narrow to satisfy the line of business test of regulation 501(c)(6)-1. The court concluded that the line of business limitation of section 501(c)(6)-1 is well grounded in the regulations and in its enforcement over a well established period. The court further concluded that exemption under section 501(c)(6) is not available to aid one group in competition with another within an industry.

The term "line of business" has been interpreted to mean either an entire industry (*American Plywood Assn. v. United States*, 267 F. Supp. 830 W.D. Wash. 1967); and *National Leather & Shoe Finders Assn. v. Commissioner*, 7 T.C. 121 (1947), acq., 1947-2 C.B. 3), or all components of an industry within a geographic area, (*Commissioner v. Chicago Graphic Art Federation, Inc.* 128 F. 2d 424 (7th Cir. 1942); *Crooks v. Kansas City Hay Dealers' Assn.*, 37 F.2d 83 (8th Cir. 1929); and *Washington State Apples, Inc. v. Commissioner*, 46 B.T.A. 64 (1942), acq., 1942-1 C.B. 17).

Organizations failing to meet the lines of business test, were instead found to serve only a "segment of a line". The groups included those composed of businesses that have licenses to a single patented product (Revenue Ruling 58-294 C.B. 1958-1, p. 244), those marketing a certain make of automobile (Revenue Ruling 6-77 C.B. 1967-1, p. 138) or those which bottle a single type of soft drink (Revenue Ruling 68-182 previously mentioned). These groups are considered to promote segments of an industry as opposed to improving conditions facing the entire industry.

Your organization is similar to those described above. Your activities are directed to promoting the marketing, sales and/or addressing the problems faced by distributors of [REDACTED]

Revenue Ruling 69-106 C.B. 1969-1, p. 153 discusses an organization formed and operated by a group of manufacturers to carry on research and development in projects of common interest to their industry. A committee of the membership agreed on what projects will be undertaken. The results of the research was made only available to members. While membership in the organization was open to all businesses in the "industry" not all businesses in the "industry" were members. In order to qualify for exemption under section 501(c)(6), a research organization must make the results of its research available to all the members of the industry.

The activities of the organization were not considered to be directed toward the improvement of business conditions facing the industry since it distributed the results of its research only to members of the organization.

Similarly, in Revenue Ruling 83-164 C.B. 1983-2, p.95, it was held that an organization conducting its activities with users of computers made by a single manufacturer was not directing its activities towards the improvement of business conditions in one or more lines of business within the meaning of section 1.501(c)(6)-1 of the Income Tax Regulations.

Based on the information submitted and the case law cited, we conclude that the activities which you conduct and the services that you provide to your members, are not directed to the improvement of business conditions facing the industry as a whole. Your activities are solely for those engaged in the distribution of [REDACTED]. A restricted membership engaged in the marketing of a particular franchised product or product bearing a particular trademark or trade name does not constitute a line of business. As a result, the line of business test is not met.

Therefore, we have determined that you do not qualify for exemption as an organization described in section 501(c)(6) of the Code. In accordance with this determination, you are required to file Federal income tax returns on form 1120.

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If you do not agree with our determination, you may request consideration of this matter by the office of regional Director of Appeals. To do this, you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax information authorization with us.

If you do not appeal this determination within 30 days from the date of this letter as explained in Publication 892, this letter will become our final determination on this matter.

Appeals submitted which do not contain all the documentation required by Publication 892 will be returned for completion.

If you have any questions, please contact the person whose name and telephone number appear in the heading of this letter.

Sincerely yours,



Paul M. Harrington
District Director
Southeast Key District